EIR Economics

Only the LaRouche Plan Will Stop Mortgage Fraud

by John Hoefle

Oct. 23—In the previous two articles on this subject (*EIR*, Oct. 15 and Oct. 22) we have focused on the higher levels of the mortgage-fraud scam, which provides the context within which the whole scandal must be situated to be properly understood. This always was, and remains, a *derivatives* crisis.

Virtually everything that has been done in recent years in the mortgage markets, from the issuance of the original mortgages to the attempts to railroad through fraudulent foreclosures, has been designed to help create, and then protect, multi-trillions of dollars of fictitious values for the imperial speculators. Along the way, these crooks systematically broke every law that got in their way, from issuing the mortgages, to skipping legal requirements for recording sales of mortgages and promissory notes, to the illegal creation and sale of mortgage derivatives, to, finally, the fraudulent attempts to seize homes through foreclosure. The fraud is pervasive, systematic, and from top to bottom. Virtually every element of our financial system has been corrupted by derivatives.

Orchestrating it all from behind the scenes, has been the Brutish Empire's leading financial warfare operation, the Inter-Alpha Group. The purpose of this operation is the destruction of the United States, and it has been horribly successful.

The name of the game in the mortgage-derivatives market was to move the paper as fast as possible. Fueling the derivatives machine meant creating ever-increasing volumes of mortgage debt. The process became an assembly line, with no delays tolerated. The machine demanded more and more fuel, day in and day out, and the whole mortgage-finance sector was warped to meet its demands.

Fraudulent Mortgages

The fraud started at the mortgage origination level. To meet the mortgage-debt volume demands, the originating lenders continually lowered lending standards, in some cases deliberately falsifying the documentation to make the sale.

At one of the lenders, Ameriquest Mortgage, "employees outfitted break rooms or spare cubicles with the tools they needed to create fake tax documents and other paperwork required in the loan approval process: Wite Out, X-Acto knives, Scotch tape. They dubbed these workspaces the Lab or The Art Department," according to Michael Hudson of the Center for Public Integrity. "These fraud-enabling workshops made it easy for loan officers to qualify borrowers for mortgages they couldn't afford," Hudson continued, adding, "It was simple: Paste the name of a low-earning borrower onto a photocopy of a W-2 tax form belonging to a higher-earning borrower, run the cut-and-paste version through a Xerox machine and, like magic, you had a piece of paper that made a bad loan

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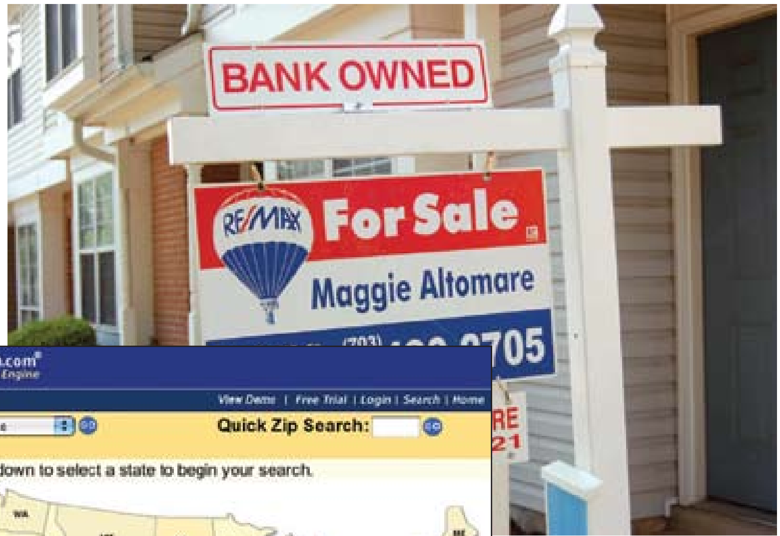

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The foreclosure tsumani which has swept across the country, driving millions of Americans from their homes, is a pervasive, systemic fraud, from top to bottom, caused by the takeover of the financial system by the insatiable demands of the derivatives bubble.

prospect suddenly look better."

The loan originators were not concerned with the quality of the mortgage loans they made, because they had no intention of keeping them. Instead, they quickly sold them to the likes of Fannie Mae, Freddie Mac, or one of the big banks, which bought mortgages, and dumped them into giant pools, against which they could issue mortgage-backed securities (MBSs). Which leads us to the second level of fraud.

Fraudulent Securities

Freddie, Fannie, the banks, and a few others specialized in creating and selling securities based on the mortgages in the pools. They did not sell the mortgages, but sold securities whose values were derived from the income streams generated by those mortgages. They were, in fact, the first level of mortgage derivatives, and formed the basis for a chain of other derivatives to be piled atop them.

Nominally, these mortgage-backed securities were backed by the mortgages in the pool, but, in reality, the MBS market and its offshoots were a giant Ponzi scheme. To begin with, the income streams from the mortgage payments were already spoken for, as repayments of the original mortgage loans. The only thing that really backed an MBS was the profitability of the company which issued it, which depended upon ever-rising home prices and ever-increasing volumes of home sales. If that money flow were ever interrupted, the whole edifice would collapse. As it did.

These MBSs were not sold whole, but were broken up into tranches. No matter how shaky—or fraudulent—the mortgages in the underlying pool, the MBS packagers and the ratings agencies managed to have a healthy slice of the MBS rated triple-A, meaning it could be sold to pension funds, life insurers, and other custodians of other people's money—and huge amounts were. The MBSs also had a middle slice, the "mezzanine," which was sold off to other buyers, many of which used them to create another layer of security, through such things as collateralized debt obligations (CDOs). These new securities would be broken into tranches, and the whole process would repeat as many times as buyers could be found.

By this method, securities were created whose aggregate values far exceeded the values of the homes upon which the original mortgages had been written. Some of the profits from this scheme were poured back into mortgage origination to keep the fuel coming, and this influx of cash for new mortgages served to keep housing prices rising. For new homeowners it meant easy access to mortgage loans, but it also meant they were paying far more than they should for their new homes—something that would come back to bite them.

The 'Paperwork'

As this giant Ponzi scheme was soaring, the players were fixated on keeping the "paper" moving, on the buying and selling, slicing and dicing, of the mortgages and the derivatives piled atop them. These securities got traded around like baseball cards, from one speculator to another, each in turn booking a 'profit." The whole business was oriented to the flow, not to the details of each transaction. As a result, many legal requirements were ignored.

The precepts of real estate law have long been settled in the United States. Although each state sets its own rules, there is a basic uniformity. Real estate sales are public records, and the deeds and associated instruments such as mortgages must be filed with the relevant county recording authorities. If the required documents are not properly delivered and filed, the transaction is incomplete. For ordinary transactions, such as the purchase of a house, meeting these legal requirements was not a burden, but when you begin wheeling and dealing at the rate required to sustain a derivatives bubble, the situation changes dramatically.

In an attempt to outflank these legal requirements, Fannie Mae, Freddie Mac, the big derivatives banks, and a few others set up their own recording system, known as Mortgage Electronic Registration System, or MERS. The idea was to have MERS be the owner of record of the mortgage, and use the MERS system to keep track of all subsequent transfers. MERS now holds over 60 million mortgages.

When the foreclosures began, many were filed by MERS. But as the level of foreclosures grew, some lawyers for the homeowners being evicted began to argue that MERS lacked the legal standing to foreclose, because it did not, in fact, own the mortgage. Gradually, some of the courts began to accept that argument and deny the MERS foreclosures.

However, the problems of the recording illegalities goes far beyond MERS, and calls into question the legal validity of the multi-trillions of dollars of derivatives piled atop the mortgages. If the original mortgages were not properly transferred to the mortgage securitizer, then the entire chain of securities which flowed from those mortgages is invalid.

Fraudulent Foreclosures

One of the basic tenets of home foreclosure law is that you have to prove you have the right to foreclose, for the foreclosure to be approved. This is where the systematic ignoring of state recording laws is coming back to haunt the derivatives markets.

To the banks, the lack of legal proof of mortgage transfers is a mere "paperwork" problem, to be resolved by either obtaining the proper paperwork or by replacing it. In many cases, that meant faking it.

This faking of documents became a booming business. The Florida Attorney General publicly accused one company, Docx, of "creating and manufacturing 'bogus assignments' of mortgages" to facilitate foreclosures, noting that these "documents appear to be forged, incorrectly and illegally executed, false and misleading."

Filing such documents with a court as part of a foreclosure suit is a serious crime, and a fraud upon the court. The courts do not take kindly to such actions.

The way in which this whole operation was run makes it difficult, if not impossible, to know who actually has the legal standing to foreclose on a home when the mortgage has not been paid. In some cases, more than one bank has filed foreclosure suits against the same property, and in other cases, homes have been foreclosed on when there was no mortgage!

In the attempt to ram the foreclosures home anyway, the banks and Fannie and Freddie have often turned to "foreclosure mills," law firms which specialize in processing large quantities of foreclosures in assembly-line form. One such firm was the law offices of David J. Stern in Florida. According to depositions taken by the Florida Attorney General from former Stern employees, an office manager at the firm would sign 1,000 foreclosure files a day, without bothering to review them; if the manager were not available, other employees would sign for her. The signatures were notarized in advance, and any missing documentation was either found or faked, prior to the signings. To keep everyone happy, and keep the scam going, according to the depositions, the Stern firm routinely paid the office manager's personal mortgage and utilities, and provided her with a new BMW every year. The firm did the same for another employee, and gave them and other employees jewelry.

Depositions taken by a Florida attorney representing some 3,000 homeowners revealed how the banks hired people who had no background in mortgages as "foreclosure experts," and put them to work processing foreclosure actions. Some of these employees had no idea what they were signing, while others knew they were lying when they signed the affidavits.

The System Is the Fraud

We have presented only a summary overview of the way in which the mortgage-financing system was rife with fraud, but even a summary represents a powerful bill of indictment. The banks will argue—as they always do—that any errors were innocent mistakes made by low-level employees. The banks even go so far as to imply that they are the real victims here. And if that doesn't work, they threaten that any attempt to punish them for their crimes will hurt the economy and the "fragile recovery."

What nonsense! The problem, it should be clear by now, is not corruption within the system, but that the system itself is corrupt. The way the mortgage-finance system works is indicative of the way the entire Inter-Alpha-spawned financial system operates.

The solution to this is the set of reforms known as the LaRouche Plan. The Brutish Empire's Inter-Alpha system must be shut down and replaced with an "American System" credit approach, coupled with strong regulation, a fixed exchange rate, a freeze on all foreclosures, and cooperation among sovereign governments. The first step, which must be done immediately if not sooner, is the passage of Glass-Steagall.

The existing system cannot be fixed. It is completely bankrupt, and beyond hope, and we would not want to save it anyway, since it was created as a vehicle to destroy the United States and the entire system of sovereign nation-states.

The hyperinflationary blowout of which Lyndon LaRouche has warned, is well underway, and the U.S. economy is disintegrating at an accelerating rate. We must act now, before it is too late. Having your home stolen is just the beginning of the horrors in store for us if we do not act. But if we do, the road to recovery is clear.

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